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Q2 2013 Commentary

Canadian-listed ETF assets ended the months of May and June just shy of the $60 billion dollar mark buoyed by healthy net creations. Market effect was, for the most part, negative during the second quarter.

Net creations totaled $2.6 billion in the quarter, $140 million higher than their previous record Q2 sales figure recorded last year. The result marks the eighth consecutive quarter with flows in excess of $2 billion and the first time since 2008 that the second quarter inflows have eclipsed the first calendar quarter's intake, which is typically buoyed by the RRSP season effect.

iShares S&P/TSX 60 Index ETF (XIU) continued to exert significant influence on the size and direction of monthly totals. May saw XIU generate $1.1 billion in net creations, which represented almost three quarters of the monthly result.

Distribution channel data based on a substantial sample compiled by Investor Economics reveals that the growth of ETFs held by retail clients outpaced the growth of institutional investors in Q1 2013 for the first time since the first half of 2011 (7.2% versus 5.7%). Growth was boosted by retail holdings of U.S.-listed ETFs which expanded by 12% in the quarter.

The Q2 asset mix picture saw a handful of asset classes generate record levels of inflows while some of the largest categories struggled. Against the backdrop of sustained positive investor sentiment south of the border and the brisk depreciation of the Canadian dollar, U.S. equity funds finished Q2 as the second best-selling asset class. The category generated over $800 million in net creations, a quarterly result 70% higher than its previous high-water mark in Q4 2008. BMO S&P 500 ETF represented a large proportion of these sales. The fund brought in $353 million in sales in May. Corporate bond funds also posted a near-record quarter with $837 million in sales. Over half of these sales were generated by BMO's recently launched BMO Mid-Term U.S. IG Corporate Bond Index ETF and its currency-hedged version. Other asset classes which posted record quarterly sales included real estate, global equity and health care.

At the other end of the spectrum were government bond and Canadian equity funds. The former posted its lowest sales total in five years at $45 million while the latter's result was its lowest in two years. In an environment of rising yields, the pace of high yield bond fund net creations also slowed to a three-year low.

BMO was the quarter's best-selling ETF issuer, generating three quarters of Q2 net creations and sponsoring nine of the top ten-selling funds. This result was the company's highest quarterly total on record. BlackRock came in second, buoyed by record sales for the iShares S&P/TSX Capped REIT Index Fund. Rounding out the top three was Vanguard with $233 million in sales. First Asset also posted its best-selling quarter to-date, generating $34 million.

In terms of product developments, Vanguard filed a preliminary prospectus for seven new ETFs covering a variety of mandates, including U.S. and global aggregate bond, Canadian all cap equity and U.S. dividend among others. First Trust Portfolios Canada completed the launch of three AlphaDEX branded funds focusing on the Canadian and international equity dividend mandates. The funds utilize a rules-based methodology which focuses on various fundamental valuation factors. First Asset launched the First Asset DEX 1-5 Year Laddered Government Strip Bond Index ETF, the winning submission to its “Search for Canada’s Next Top ETF” contest.